

P3 Performance Measures Workgroup
7/14/00
Some Performance Measure Theory
Intended to Be Useful in Selecting Measures for
California's Child Support Program

"Cheshire Cat," Alice began, "Would you tell me, please, which way I ought to go from here?" "That depends a good deal on where you want to get to," said the Cat.

-- Lewis Carroll

Hours after the last familiar sign, the driver kept up a steady pace. "We're lost, aren't we?" said the passenger. "Yes," said the driver, "But we're making good time, don't you think?"¹

-- Anon.

INTRODUCTION

This paper summarizes information from the following sources:

- "The Balanced Scorecard: Measures That Drive Performance," published in *The Harvard Business Review* in 1991 by Robert Kaplan and David Norton;
- *Balancing Measures: Best Practices in Performance Management* published in August 1999 by the National Partnership for Reinventing Government (NPR); and
- *Concepts Statement No. 2, Service Efforts and Accomplishments Reporting*, published by the Governmental Accounting Standards Board (GASB).

Kaplan and Norton's Balanced Scorecard article created much of today's focus on performance measures. The article itself has become one of Harvard Business Review's most request reprints. It has spawned an entire new industry for consultants. It is also heavily quoted in the NPR Best Practices paper as a source of inspiration for the Government Performance and Results Act.

Both the Balanced Scorecard and the Best Practices papers go beyond defining performance measures and their purposes into a broader discussion of how an organization can best accomplish strategy through a management system that includes the use of performance measures. By contrast, the GASB Concept paper describes performance measures more in isolation, although even this paper describes a context in which measures should be used to be most effective. I have included quite a lot of detail from this paper, mostly because it gives a lot of examples, which may stimulate your thoughts about possible measures.

¹ Quotes from an article on performance measures by Mark Friedman who served for 19 years in the Maryland Department of Human Resources, including six years as the Department's chief financial officer.

Because everyone has more than enough to do and read, I've tried to highlight what are the key concepts in each source. Feel free to read more if you would like and the URLs are included for the Best Practices and Concepts Statement.

THE BALANCED SCORECARD

At the core of the balanced scorecard concept are performance measures selected because decision makers view them as key indicators of whether an organization is achieving the organization's strategy. Thus, the balanced scorecard is designed to keep the organization focused on strategy by creating a measurement feedback loop that communicates throughout an organization (or in our case possibly across organizational boundaries to communicate throughout the child support program) what it must do to be successful and whether the organization is doing those things.

According to Kaplan and Norton, the process of building the balanced scorecard -- clarifying the strategic objectives, identifying the few critical drivers of strategy, and linking specific actions to performance measures -- links day-to-day actions to strategic goals. This process also creates a framework for prioritizing, focusing and managing an organization's various change programs.

The Balanced Scorecard functions like the dials and indicators in an airplane cockpit. These instruments summarize current and predicted status for the plane so the pilot can keep it in the air.

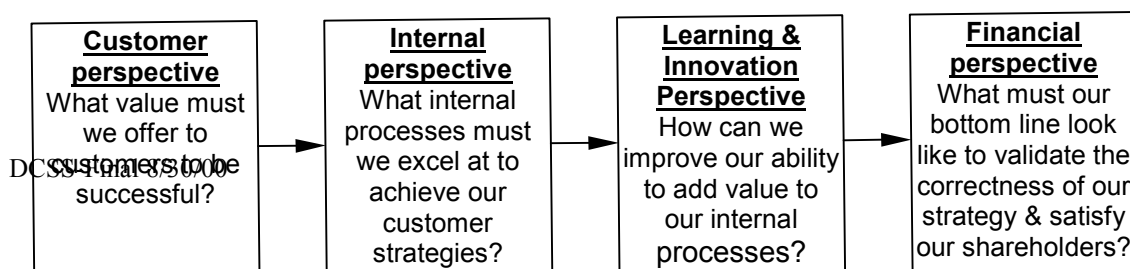
- Reliance on one indicator alone could be fatal.
- At the same time, overloading the pilot with information could be fatal too. The Balanced Scorecard forces organizations to focus on the handful of measures that are most critical.

Thus it is critical that the organization use only a necessary but sufficient number of measures so that decision-makers and other stakeholders are not inundated with too much information.

Kaplan and Norton developed the balance scorecard to give managers more information on organizational performance than the predominantly financial measures used at the time. Based on research at 12 private-sector organizations, Kaplan and Norton defined four perspectives that they felt were the minimum necessary to provide the necessary and sufficient view of the organization. The four Balanced Scorecard perspectives offer a logical, comprehensive view of the business for successfully managing complex organizations. The four perspectives are:

- Customer
- Internal
- Learning and innovation
- Financial

The four perspectives have a causal relationship as follows:



The four perspectives integrate short-term financial performance with three operational perspectives that drive future financial performance. By focusing managers' attention on measures for all the perspectives simultaneously, the Balanced Scorecard protects against sacrificing either future or short-term success in one perspective as a result of pursuing success in another.

Managing by the balanced scorecard concept requires that – once the performance measures are established – units throughout the organization identify the linkages between their actions and upwards movement of the measures. Thus it is extremely important that the measures selected really are determiners of success since the measures will ultimately drive the actions of the organization toward the strategies selected.

Balancing Measures: Best Practices in Performance Management

<http://www.npr.gov/library/papers/bkgrd/balmeasure.html#exsum>

Not everything that can be counted counts, and not everything that counts can be counted.

—Albert Einstein

Measure the right thing, then measure it right.

You've got to think about "big things" while doing small things, so that all the small things go in the right direction.

—Alvin Toffler

Following are excerpts from a paper on best practices observed from the implementation of Federal Executive Order 12862, signed by President Clinton in September 1993. This order requires federal agencies to determine from their customers the kind and quality of service they seek.

Like the balanced scorecard, this paper stresses the importance of balance among measures and particularly of basing measurements on customer-defined value. However, the NPR de-emphasize causal relationships between perspectives, instead emphasizing that measures need to balance the needs of various constituencies.

EXCERPT: Introduction

In the same way that the private sector experienced noticeable changes by measuring beyond business results, government agencies have also begun to balance a greater constellation of measures by incorporating customer needs and expectations into their strategic planning processes. ***This balanced approach to performance planning, measurement, and management is helping government agencies achieve results***

Americans—whether customers, stakeholders, employees, or other—actually care about.

To do so, establish a results-oriented set of measures that balance business, customer, and employee. Define what measures mean the most to customer, stakeholder, and employee by (1) having them work together, (2) creating an easily recognized body of measures, and (3) clearly identifying measures to address their concerns.

Creating a balanced set of performance measures involves all of the activities discussed in the preceding sections of this report—balancing customer, stakeholder, and employee interests; establishing accountability; and collecting using data. But translating that set of measures into achievement of organizational mission means connecting those activities to the organization's day-to-day operations. While this basic principle is widely recognized in theory, practical application in the public sector has widely varied levels of success.

EXCERPT: *Balancing Measures: Why Should I Do It and What Does It Mean?*

"Reflecting back on the long history of federal service, I never saw any single measure which could adequately describe an agency's performance. Use of the 'scorecard,' because it balances both internal and external stakeholder concerns, gives us a much more comprehensive, and balanced, picture of how we are doing. The measures we traditionally used tended to focus almost exclusively on internal processes. They also failed to measure three major areas: the real cost of doing business, the impact of the processes on the veteran-customer, and their impact on employees. Use of the scorecard balances our measures because it looks at both external and internal measures. They keep the organization focused on the vision and our stakeholders: veteran-customers, employees, and taxpayers. The scorecard measures provide a 'line of sight' for every employee to see their contribution to organizational results."

—Joe Thompson, Under Secretary for Benefits, Veterans Benefits Administration, Department of Veterans Affairs

Balancing measures is a strategic management system for achieving long-term goals. Senior executives in industries from banking and oil to insurance and retailing use balanced measures to guide current performance and plan future performance. They use measures in four categories—financial performance, customer knowledge, internal business processes, and learning and growth—to align individual, organizational, and cross-departmental initiatives and to identify processes for meeting customer and shareholder objectives.

Their experience has shown that ***balancing a family of performance measures works***. This means that in each phase of performance planning, management, and measurement, the customer, stakeholder, and employee are considered in balance with the need to

achieve a specific mission or result. This approach has worked in the private sector and is beginning to take firm root in government as well.

EXCEPTS: Implementation –[*In order to successfully use performance measures, the best practices report recommends the following among other things.*]:

- ***Commit to initial change*** by (1) using expertise wherever you find it; (2) involving everyone in the process; (3) making the system nonpunitive; (4) bringing in the unions; and (5) providing clear, concise guidance as to the establishment, monitoring, and reporting of measures.
- ***Maintain flexibility*** by (1) recognizing that performance management is a living process, (2) limiting the number of performance measures, and (3) maintaining a balance between financial and nonfinancial measures.

Establish Accountability at All Levels of the Organization

- ***Lead by example.***
- ***Cascade accountability:*** share it with the employee by (1) creating a performance-based organization, (2) encouraging sponsorship of measures at all levels, and (3) involving the unions at all levels of performance management.
- ***Keep the employee informed*** via intranet and/or Internet; don't rule out alternative forms of communication.
- ***Keep the customer informed*** via both the Internet and traditional paper reports.
- ***Make accountability work:*** reward employees for success. Supplement or replace monetary rewards with nonmonetary means, reallocate discretionary funds, and base rewards in a team approach.

Collect, Use, and Analyze Data

- **Recognize that not everything is on-line or in one place.**
- **Centralize the data collection function at the highest level possible.**
- **Collect feedback data**, which can be obtained from customers by providing easy access to your organization; remember too that "survey" is not a four-letter word.
- **Collect performance data** by (1) investing both the time and the money to make it right, (2) making sure that your performance data mean something to those that use them, (3) recognizing that everything is not on-line or in one place, and (4) centralizing the data collection function at the highest possible level.
- **Analyze data:** (1) combine feedback and performance data for a more complete picture, (2) conduct root-cause analyses, and (3) make sure everyone sees the results of analyses.

Connect the Dots

If your performance management efforts are not connected to your business plan (which defines day-to-day operations in a government agency) and to the budget (which is where the money is), then you will be doomed to failure because your performance measurement approach will have no real meaning to the people running, or affected by, the program. Planning documents must connect to business plans, and data systems and

the budget process must be integrated with all these other factors. By doing so, you can create a strategic management framework which serves to focus the entire organization on the same mission and goals.

Governmental Accounting Standards Board: Concept Statement #2

<http://www.rutgers.edu/Accounting/raw/seagov/pmg/perfmeasures/index.html>

Performance measurement reporting is tied directly to the concept of **managing for results**. Performance information is needed for:

- setting goals and objectives
 - planning program activities to accomplish these goals and objectives
 - allocating resources to programs
 - monitoring and evaluating results to determine if progress is being made toward achieving the goals and objectives, and
 - modifying program plans to enhance performance.
1. Performance measures organize information for use by the decision-makers engaged in those activities. Through the measurement, analysis, and evaluation of performance data, public officials can identify ways to maintain or improve the efficiency and effectiveness of activities and

Managing for Results

Performance measures can be an important tool for understanding government performance, but without a process for using this information it is only of limited value. One such process that is receiving increasing interest in government as well as in not-for-profits and the private sector is called *Managing for Results*.

The managing for results process is a comprehensive approach to focusing an organization on its mission, goals, and objectives. It establishes the accomplishment of those goals and objectives as the primary endeavor for the organization and provides a systematic method for carrying out the endeavor. It requires the establishment of performance measures and the use and reporting of those measures so that management, elected officials, and the public can assess the degree of success the organization is having in accomplishing its mission, goals, and objectives.

The stages of the managing for results process are:

- Strategic planning
- Program planning
- Setting priorities and allocating resources
- Activity planning and organization
- Management of operations
- Monitoring operations and measuring results
- Analysis of, reporting, and obtaining feedback on results

Information provided by governments should be intended to assist in decision-making and to facilitate the process of decision making in the context of the public administration system and budgetary cycle. **Therefore, ideally a governmental entity should:**

- **establish and communicate clear, relevant goals and objectives**
- **set measurable targets for accomplishment, and**
- **develop and report indicators that measure its progress in achieving those goals and objectives** (measures of performance).

For example, for governmental entities to have appropriate information for making decisions and assessing accountability, information needs to be provided about results achieved (service accomplishments or performance) through the use of the resources provided (service efforts) and how those results compare with what was planned. The terms economy, efficiency, and effectiveness often are used in this context to describe the categories of performance information needed.

The Elements of Performance Measurement Reporting

Categories of performance measures

50. Performance measures consist of three broad categories of indicators—those that measure service efforts, those that measure service accomplishments, and those that relate efforts to accomplishments—and certain explanatory information. Although a clear division cannot be made in all cases among these categories of measures, they are helpful for understanding what a performance indicator is designed to measure. Performance measures should be reported for services the entity is responsible for providing, whether the governmental entity provides the service itself or contracts for it.

a. **Measures of efforts:** Efforts are the amount of financial and nonfinancial resources (in terms of money, material, and so forth) that are put into a program or process. Measures of service efforts also include ratios that compare financial and nonfinancial resources with other measures that may indicate potential demand for services, such as general population, service population, or lane-miles of road.

(1) **Financial information:** This information includes financial measures of expenditures/expenses. These measures include the cost of salaries, employee benefits, materials and supplies, contract services, equipment, and so forth, of providing a service. For example, measures of efforts may include the amount spent for education and the amount spent per full-time-equivalent student.

(2) **Nonfinancial information:**

(a) *Number of personnel:* Because personnel are the major resource for most government agencies, departments, programs, and services, indicators that measure the number of full-time-equivalent employees or employee-hours used in providing a service often are appropriate measures of resources used. These

measures have the effect of removing wage, benefit, and cost-of-living differences from the resource inputs, and may facilitate comparisons over time and with other organizations. For example, measures may include the number of teachers in total or per student; the number of road maintenance workers in total or per lane-mile of road; and the number of uniformed officers assigned to crime investigations or the number per capita assigned to crime investigations.

(b) *Other measures*: These may include the amount of equipment (such as number of vehicles) or other capital assets (such as lane-miles of road or acres of park land) used in providing a service.

b. **Measures of accomplishments**: Accomplishment measures report what was provided and achieved with the resources used. There are two types of measures of accomplishments—outputs and outcomes. Outputs measure the quantity of services provided; outcomes measure the results of providing those outputs.

(1) **Output measures**:

(a) **Quantity of a service provided**: These indicators measure the physical quantity of a service provided. For example, measures may include the number of students promoted or graduated; the number of passenger miles provided by public transit; the number of lane-miles of road repaired; and the number of crimes investigated.

(b) **Quantity of a service provided that meets a certain quality requirement**: These indicators measure the physical quantity of a service provided that meets a test of quality. For example, measures may include the percentage of students graduated or promoted who have met a minimum prespecified standard of achievement; the percentage of buses meeting a prespecified on-time standard of achievement.

(2) **Outcome measures**:

(a) These indicators measure accomplishments or results that occur (at least partially) because of services provided. Results also include measures of public perceptions of outcomes. For example, measures may include the percentage of students achieving a specified skill-level gain in reading.

(b) Outcome measures are particularly useful when presented as comparisons with results from previous years, entity-established

targets or goals and objectives, generally accepted norms and standards, other parts of the entity, or other, comparable jurisdictions (both public and private). For example, measures may include 75 percent of the students achieving a specified skill-level gain in reading when the school district's objective is for at least 70 percent of the students to achieve the specified skill-level gain in reading; 25 percent of the population being served by public transportation when the transit system's objective is to serve at least 35 percent of the population.

c. Measures that relate efforts to accomplishments:

(1) **Efficiency measures** that relate efforts to outputs of services: These indicators measure the resources used or cost (for example, in dollars, employee-hours, or equipment used) per unit of output. They provide information about the production of an output at a given level of resource use and demonstrate an entity's relative efficiency when compared with previous results, internally established goals and objectives, etc. For example, measures may include the cost per full-time-equivalent student or the cost per student promoted or graduated.

(2) **Cost–outcome measures** that relate efforts to the outcomes or results of services: These measures report the cost per unit of outcome or result. They relate costs and results so that management, elected officials, and the public can begin to assess the value of the services provided by an entity. For example, cost–outcome measures may include the cost per student who achieves a specified skill-level gain in reading.

Characteristics Performance Information Should Possess

57. Performance information should meet the characteristics of relevance, understandability, comparability, timeliness, consistency, and reliability. The application of these characteristics to performance information is discussed below.

Relevance

58. Performance information should include data that are essential to provide a basis for understanding the accomplishment of goals and objectives of the entity that have potentially significant decision-making or accountability implications. As with any other information provided in GPEFR, performance information should be management's representations of the performance of the entity and its agencies, departments, programs, and services. Because the purpose of governmental entities is to establish and enforce laws, regulate activities, and provide services economically, effectively, and efficiently—not to earn profits—no single measure of performance is readily available to assist users

in assessing accountability and in making economic, political, and social decisions. A broad variety of performance measures may therefore be required to meet the diverse needs of the different users; report on the many goals and objectives of different types of agencies, departments, programs, and services; and address the issues being considered for different decisions and levels of accountability.

Understandability

59. Performance information should be communicated in a readily understandable manner. It should communicate the performance of the agency, department, program, or service to any reasonably informed interested party.

60. Performance information should be concise yet comprehensive with regard to which (and how many) measures of performance are reported. Both conciseness and comprehensiveness in reporting performance measures are important because of the number, diversity, and complexity of state and local governmental agencies, departments, programs, and services. Performance information should be provided at the most appropriate level of aggregation or disaggregation. A balance should be achieved among the number of services reported, the performance measures reported, and the capability of users to understand and act on the information.

62. Performance information may be accompanied by a description of the way in which the performance measures should be used. This could include comments on the need to consider performance measures in conjunction with explanatory information, the need to consider the multiple aspects of performance when assessing results, instances where surrogate measures (see paragraph 67e) are being reported because of an inability to measure an outcome of a service, and the difficulty of using performance information to assess policy accountability. The descriptions could also contain additional information about performance measures that could assist users in understanding the reasons for the reported level of performance and actions planned or being taken to change results.

Comparability

63. Performance information should provide a clear frame of reference for assessing the performance of the entity and its agencies, departments, programs, and services. Performance measures, when presented alone, do not provide a basis for assessing or understanding the level of performance of an agency, department, program, or service. Therefore, performance information should include comparative information... [such as] comparisons with (a) several earlier fiscal years, (b) targets established by the entity such as targets established as part of the budgetary process, (c) externally established norms or standards of performance, (d) other parts or subunits of the same entity, or (e) other, comparable entities.

Timeliness

64. Performance information should be reported in a timely manner so that it will be available to users before it loses its capacity to be of value in assessing accountability and making decisions.

Consistency

65. Performance information should be reported consistently from period to period to allow users to have a basis for comparing performance over time and to gain an understanding of the measures being used and their meaning. However, performance measures also need to be reviewed regularly and modified or replaced as needed to reflect changing circumstances.

Reliability

66. For performance information to be of value to users, it is essential that it be reliable. To be reliable, the information should be verifiable and free from bias and should faithfully represent what it purports to represent. Therefore, performance information should be derived from systems that produce controlled and verifiable data.

Adapted from Concepts Statement No. 2 of the Governmental Accounting Standards Board, *Service Efforts and Accomplishments Reporting*